

## Health plans make more, spend less in 2005

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### **Conclusion: 1/3 of health care dollars don't go to health care — go to profits & excessive overhead**

If physicians needed any more indication of tightening reimbursement, how about this - not only did profits for the biggest health plans go up last year, but those plans also continued to cut the percentage of revenue they spend on care.

The medical-cost ratio - also called the medical-loss ratio or medical-care ratio - is the key number for health plans in terms of their level of profitability. That ratio, simply, is the percentage of dollars the companies spend on health care.

Whereas 10 years ago many plans had medical-cost ratios in the high 80s or 90s, now the highest percentage among large, publicly traded health insurers is Health Net, at 83.9%. Aetna, which had a medical-cost ratio well into the 90s when CEO John Rowe, MD, took over in 2000, recorded a ratio of 76.9% in 2005, Dr. Rowe's final full year before his retirement. That was the lowest medical-cost ratio for the nation's largest publicly traded plans.

Medical-loss ratios for 2005 (Source: Company 10-K, year-end filings with the Securities and Exchange Commission):

76.9% - Aetna  
82.3% - Cigna  
83.9% - Health Net  
83.2% - Humana  
78.6% - UnitedHealth Group  
80.6% - WellPoint

### **Conclusions:**

Twenty percent of health insurance premium dollars are not spent on health care, but instead go to private insurance overhead and profits.

Administrative burdens placed on the health care delivery system by insurers — billing and insurance related functions for physicians and hospitals — burn up another 12 percent or so of the premium dollar (Kahn et al, Health Affairs, Nov/Dec 2005).

Added together, these costs account for one-third of the premium dollar that does not go for health care, but got to insurance overhead and wasteful administrative costs.

<http://www.ama-assn.org/amednews/2006/03/06/bisd0306.htm>

Original study by Dr. James G. Kahn, MD, MPH, principal study investigator and professor at the Institute for Health Policy Studies at the University of California, San Francisco, November 2005.

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